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RUEHFK/AMCONSUL FUKUOKA IMMEDIATE 5571  
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RUEHOK/AMCONSUL OSAKA KOBE IMMEDIATE 9236  
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RUEAIIA/CIA WASHDC IMMEDIATE  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE  
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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 000142

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TAGS: [PGOV](#) [EFIN](#) [PREL](#) [JA](#)

SUBJECT: FOCUS SHIFTS TO DOMESTIC ISSUES, AS DIVIDED DIET  
OPENS NEW SESSION

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Classified By: CDA Joe Donovan, reasons 1.4(b),(d).

11. (C) Summary. The Diet opened on January 18, with the division between the ruling party-controlled Lower House and the opposition-controlled Upper House remaining as the Legislature's organizing principle. The session opens just three days after the close of the especially contentious extraordinary session that was convened on September 10. That session, the third-longest in Diet history at 128 days, was extended twice to ensure adequate time to pass a new anti-terror law authorizing the resumption of refueling operations in the Indian Ocean in support of Operation Enduring Freedom. Embassy media and political contacts are expecting an equally pitched battle over six road-related taxes, including the national gasoline tax and other budget-related measures in the new session. Although the media's focus last session was on the failure of the ruling and opposition camps to find common ground on the OEF legislation, the two were nonetheless able to move forward on a fair number of moderately important livelihood-related measures; it is likely that they will be able to do so this term as well. End summary.

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New Session, Same Old Gridlock  
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12. (C) The new ordinary Diet session opened on January 18, just three days after the close of the third-longest extraordinary Diet session in post-war history. That session, marked by Japan's first experience with a divided Diet, centered on a battle over anti-terror legislation to allow the resumption of refueling efforts in the Indian Ocean in support of Operation Enduring Freedom (OEF). The difference this time, Embassy contacts predict, will be a shift in focus to domestic issues, primarily those related to the budget and taxes. The underlying political context, however, remains the same, as Prime Minister Yasuo Fukuda and his ruling Liberal Democratic Party (LDP)-Komeito coalition

seek to advance their legislative agenda against a Democratic Party of Japan (DPJ)-led opposition that controls the Upper House. Those who hope to see a change in tactics by either party toward wider accommodation are likely to be disappointed, based on Embassy conversations with insiders from all three major parties, as the two sides begin to stake out what may soon become non-negotiable positions on key issues. The session will run for 150 days, through June 15. Prime Minister Fukuda will deliver his policy speech on the first day, followed by several days of Diet interpellations.

¶3. (C) Both the LDP and DPJ attempted to set the stage for the new session in party conventions on January 16 and 17. The ruling party threatened dire consequences to the economy and people's lives if the DPJ stonewalls on budget-related measures that are due to expire March 31. Reflecting on his party's loss in the July Upper House elections that led to the divided Diet, Prime Minister Fukuda said the LDP is facing the "most serious crisis" in its history. Ozawa, meanwhile, repeating a similar promise he made before the July Upper House elections, said he would "stake his political life" on bringing about a change in government in the next general election. In a press conference later that day, he defined anything less than a majority of seats in the Lower House as a defeat.

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LDP Aims to Avoid Elections, Preserve Ability to Override  
the Upper House  
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¶4. (C) Together, the LDP and Komeito account for 336 of 480 seats in the Lower House, but only 105 of 242 seats in the Upper House. Their greater-than two-thirds majority in the Lower House means they have the constitutional authority to pass legislation that the Upper House has rejected, a power

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used for the first time in 57 years to pass the OEF refueling bill. Overuse of the override carries the risk of losing public support, some Embassy LDP contacts warn. DPJ leader Ichiro Ozawa will continue to work hard to force an early dissolution of the Lower House and a snap general election, DPJ insiders affirm, and the action plan proposed at the January 16 DPJ convention sets victory in the next Lower House election as the paramount goal.

¶5. (C) Prime Minister Fukuda is indicating publicly and privately that he will resist opposition pressure to dissolve the Lower House -- or even reshuffle the Cabinet -- before the G-8 Summit in July. Embassy contacts across the political spectrum predict there will be no elections until after the G-8. Some of those contacts note, however, that the Prime Minister's ability to stave off elections will be dependent, in part, on the outcome of the budget-related deliberations at the end of March. Fukuda's popularity has dropped sharply in recent weeks (septel), but Embassy contacts say that his position remains secure within the party. He continues to remain vulnerable on the pension issue and will need to show progress on addressing the massive failure of the Social Insurance Agency to keep accurate pension records.

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Ozawa Strives to Maintain Upper House Majority  
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¶6. (C) With a voting bloc of only 120 seats in the Upper House, Ozawa is not assured of a majority, and must be careful to avoid alienating the much smaller Socialist (SDP), Communist (JCP), New Japan, and New People's parties. While the DPJ's popularity has held fairly steady since its win in July Upper House elections, and it still does well in surveys of voter preferences for the next Lower House election, it has not picked up any additional support from its performance in the Diet and no longer leads the LDP in many polls.

Ozawa's hold over some elements of his own party also remains questionable, some Embassy DPJ contacts report. Anti-Ozawa DPJ lawmakers continue to toe the Ozawa party line in hopes that he will lead them to a win in the next election.

¶7. (C) In November, Ozawa was rebuked by virtually all of his DPJ colleagues for seeking to form a "grand coalition" with the LDP. A month later, he was criticized for ignoring the unwritten rule that demanded Diet consensus before calling Finance Minister Fukushima Nukaga for sworn testimony over a defense-related scandal. Subsequently, he failed to take into account the desire of the SDP and JCP to "assert the will of the Upper House" and vote down the OEF bill, rather than having it revert automatically to the Lower House for a re-vote after 60 days. Most recently, he was criticized by some within his own party after he opted to leave the Diet for a campaign trip just minutes before the OEF re-vote in the Lower House.

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Lines in the Sand Over Gasoline Tax  
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¶8. (C) At this point, the most likely candidate for an OEF-style showdown in the new Diet session appears to be the national gasoline tax. LDP leaders have stated publicly their commitment to keep a provisional 25 yen per liter (roughly 25 cents) tax rate on gasoline in place, despite public opinion polls showing nearly 60 percent of respondents oppose that policy. (Note: The gasoline tax is just one of several gas and road-related taxes, and depending on how the bills are structured for voting, more than just the provisional 25 yen bill may actually be at stake. Revenues from the six road related taxes, including the gasoline tax, are earmarked in principle for the improvement of roads; the surcharges are projected to generate a combined 2.7 trillion (\$24.5 billion) in central and local tax revenues in FY 2007,

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but are scheduled to expire at the end of March or April of 2008.)

¶9. (C) Prime Minister Fukuda has denied reports that the ruling parties have already decided to put the matter to a re-vote in the Lower House in the event it is voted down or held for 60 days in the Upper House, but Secretary General Bunmei Ibuki confirmed that approach in a televised appearance on January 13. Several press reports have already laid out the government's alleged timeline for introducing an amendment to the Special Tax Measures Law by late January in order to gain passage before the new fiscal year begins on April 1. While the budget itself can be passed by the Lower House alone, after a maximum 30-day hold in the Upper House, crucial supporting legislation, such as tax measures, are subject to the standard 60-day hold and cannot be passed into law over Upper House objection without a two-thirds majority re-vote in the Lower House.

¶10. (C) Convincing the public, particularly in urban areas, that is in their best interests to maintain the tax in order to fund road construction projects may be a tough sell, and risks harking back to "old-style" LDP pork-barrel policies aimed at appeasing rural constituencies. In remarks to the press on January 15, Prime Minister Fukuda appealed to the public not to ignore the long-term impact of a tax cut on the economy in search of a short-term gain. The DPJ, meanwhile, may find it difficult to iron out differences among its own members as well as the other opposition parties, much as it did with the OEF bill. For now, at least, the SDP and JCP are siding with Ozawa, but the DPJ-allied New People's Party ("Kokumin Shinto") is still opposed to lifting the tax. DPJ Secretary General Hatoyama told the press January 11 that the

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opposition is ready to pass a censure motion against the Cabinet in the Upper House if the Lower House takes a re-vote

this time, noting that tax-related measures are much more relevant to the general public than the OEF bill. The danger for the DPJ with this strategy is that while the idea of a tax cut may appeal to the average voter, the decline in revenues for road construction projects will do little to help some of the rural economies that switched their support from the LDP to the DPJ in the most recent Upper House election.

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Quiet Progress Expected on Other Fronts  
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¶11. (C) Despite the perception of near-gridlock in the previous session that was fed, in part, by the media focus on the OEF refueling measure, the ruling and opposition parties actually managed to work together quietly to accomplish a fair amount of routine business, including passage of 26 bills, not far off the average for a fall term. Of 15 government-sponsored measures proposed in the last session, only a bill to establish a Japan National Security Council -- never a priority for the Fukuda administration -- failed to pass. Measures such as a broadcast bill (which the LDP and Komeito at one point planned to pass over the strong objections of the opposition when the ruling coalition still enjoyed a majority in both houses in June 2007) were passed in the extraordinary Diet session with full support from the opposition after minor tweaking to reflect DPJ concerns. Bills to provide support for victims of natural disasters and to compensate those who contracted hepatitis C from government-supplied blood products were worked out by joint panels outside of the normal committee process, a relatively new phenomenon.

¶12. (C) Embassy contacts say there is no reason to expect that the two sides won't continue to find common ground on a fair number of legislative measures this term as well. Rhetoric on the OEF bill aside, Prime Minister Fukuda has continued to maintain a low-key and cooperative approach to the opposition, professing publicly his willingness to engage

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in direct consultations on priority bills. The government is prepared to submit 78 new bills this session, slightly below the average of 90 to account for the new power structure in the Diet. Furthermore, anticipated battles over appointments, including the next Bank of Japan Governor, may be more muted than originally anticipated, according to Embassy sources. Upper House objections on appointments, however, unlike legislation, cannot be overridden by a re-vote in the Lower House. The supplementary budget process, expected to be completed by the end of January, will be an early test of inter-party cooperation.

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Room for Discussion on Permanent Dispatch Law  
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¶13. (C) One issue likely to be addressed in the aftermath of the OEF bill is a permanent dispatch law to define the parameters for Self-Defense Forces (SDF) activities overseas and eliminate the need to approve each deployment with an ad hoc special measures law. A number of recent editorials have lamented the fact that despite the many hours of deliberation on the OEF bill -- much of it focused on tangential issues such as possible diversion of Japanese fuel and other defense-related scandals -- there was little in the way of serious debate over the underlying constitutional issues and the big picture of how Japan should contribute internationally. Some consider statements by both sides during discussions over the OEF bill as promising signs that may have laid a foundation for bipartisan agreement on a permanent law. In fact, a DPJ-backed measure to provide some sort of alternative to anti-terror refueling support in the form of reconstruction and humanitarian assistance to Afghanistan may be a starting point. This counterproposal

was passed in the Upper House the same day as the OEF bill, but was carried over by the ruling parties for further deliberation in the Lower House, rather than being simply voted down.

¶14. (C) Media reports have suggested that the ruling parties are interested in deliberating the bill for two reasons -- to lay the foundation for a permanent dispatch law and to bring to the surface disagreements within the DPJ on security policy. The DPJ wavered for months over whether to submit a counterproposal, with some members airing their disagreements publicly over what form Japan's support for Afghanistan should take. Examples of sanctioned SDF activities include the provision of medical services and logistical support for the transport and delivery of humanitarian assistance.  
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